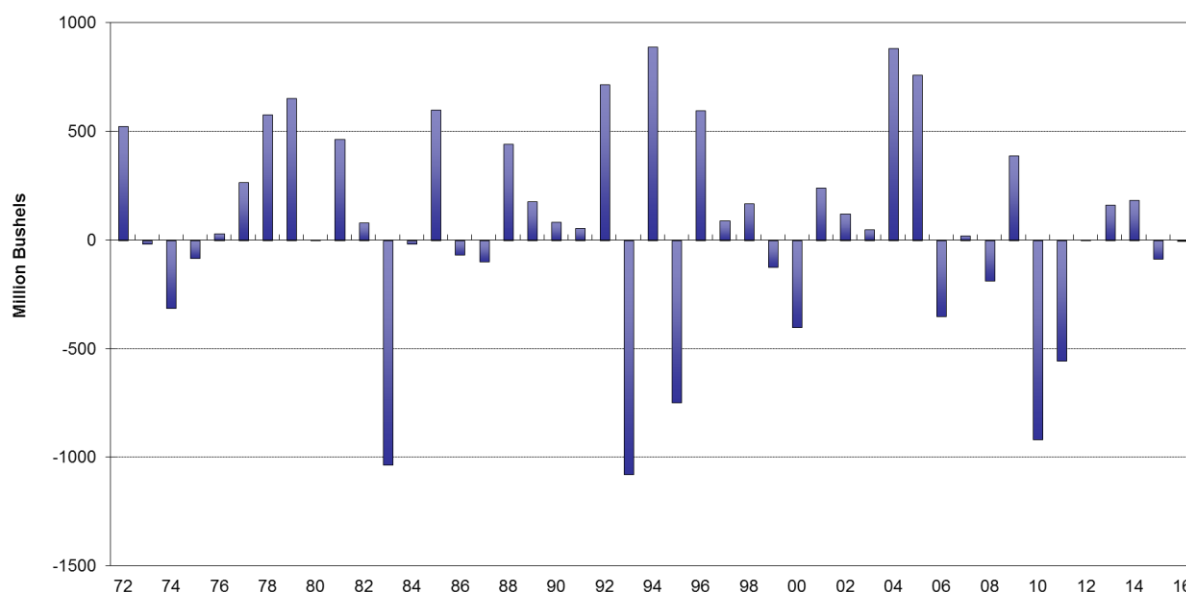


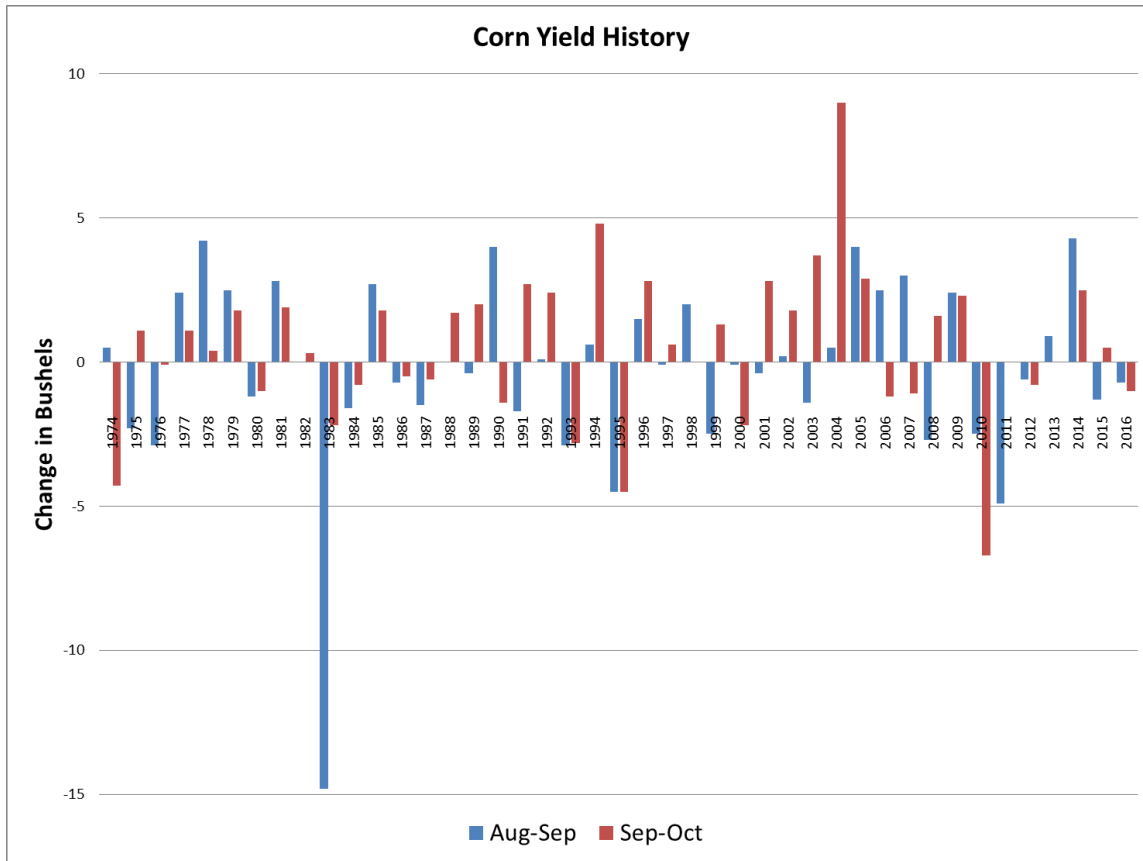
CORN:

Values mounting a small dead cat bounce after the bearish route following the report yesterday. The trade is still trying to digest the yield delivered by the USDA in yesterday's report. Denial and questioning continues over the validity of the yield. The market's recovery shows some of the doubt in the USDA's number. As we presented in the commentary yesterday, this year's crop is the worst rated heavy eared corn crop according to NASS. Instances where corn production remains static from the August report to the Jan report are rare as seen in the table below. Immaturity of the crop and the lack of a full sample in August leads to a plethora of revisions in the following reports.

*Corn Production
August vs January Report*



To be looking for a major revision in the September report is expecting an outlier. Commonly the month to month changes run in the 2.5 bushel range with a few nearing 5 bushels. Only in 1983 did the Aug-Sep yield change run into the double digits. More often it's the cumulative move from August to October with Aug-Sep generally establishing the trend and then the same direction is taken in the Sep-Oct report. A big driver of yields this year is the NASS's assertion on near record ear weights without ears being weighed. The USDA doesn't publish its details about the August ear weight measurements but will give objective yield numbers in the next production report.



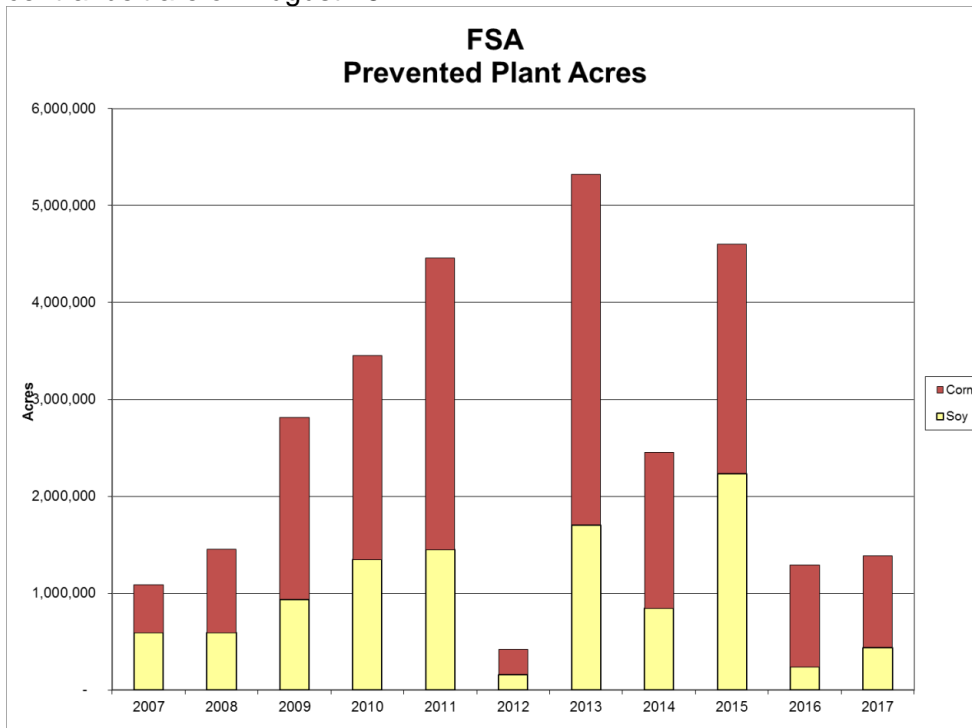
In the major states (Iowa, Illinois, Indiana) reviewed for the USDA's ear weight measurements I found ear weights have no average seasonal direction and can fluctuate 12% at their extreme from one month to another and commonly 2 to 3%. A 2% change in ear weight in Iowa can swing the state 4 bushels from the NASS August estimate. One additional observation regarding yield is the USDA's current number relies heavily on minor state record production in order to prop up the major states. These minor states have the least sampling historically. Many of the southern minor states will have the most maturity by the September report and will have a much better contribution by then due the government's methodology.

Ear Weight Change

IL Change	SEP-OCT	OCT-NOV	NOV-FIN	IA Change	SEP-OCT	OCT-NOV	NOV-FIN
2001	2%	1%	1%	2001	3%	5%	-1%
2002	-1%	0%	-2%	2002	7%	1%	2%
2003	10%	0%	-3%	2003	2%	2%	-1%
2004	6%	0%	0%	2004	10%	2%	-1%
2005	7%	0%	-1%	2005	3%	1%	-1%
2006	-1%	-3%	-1%	2006	-3%	-3%	2%
2007	-1%	0%	-2%	2007	-1%	-3%	-2%
2008	3%	1%	0%	2008	2%	0%	-1%
2009	1%	-2%	-1%	2009	1%	-3%	-1%
2010	-8%	-1%	-1%	2010	-6%	-1%	-1%
2011	-1%	-2%	0%	2011	1%	1%	1%
2012	-12%	3%	4%	2012	0%	-1%	-1%
2013			-1%	2013			-3%
2014	3%	1%	0%	2014	1%	-1%	-3%
2015	-2%	-1%	4%	2015	2%	3%	2%
2016	1%	0%	-2%	2016	2%	0%	2%

IN Change	SEP-OCT	OCT-NOV	NOV-FIN
2001	6%	0%	-2%
2002	-1%	0%	3%
2003	2%	2%	-3%
2004	7%	1%	-1%
2005	1%	1%	2%
2006	-1%	-3%	-1%
2007	-1%	0%	-3%
2008	0%	0%	0%
2009	1%	0%	3%
2010	-5%	0%	-2%
2011	1%	0%	1%
2012	1%	0%	-1%
2013			1%
2014	2%	1%	1%
2015	1%	0%	-4%
2016	-4%	1%	-2%

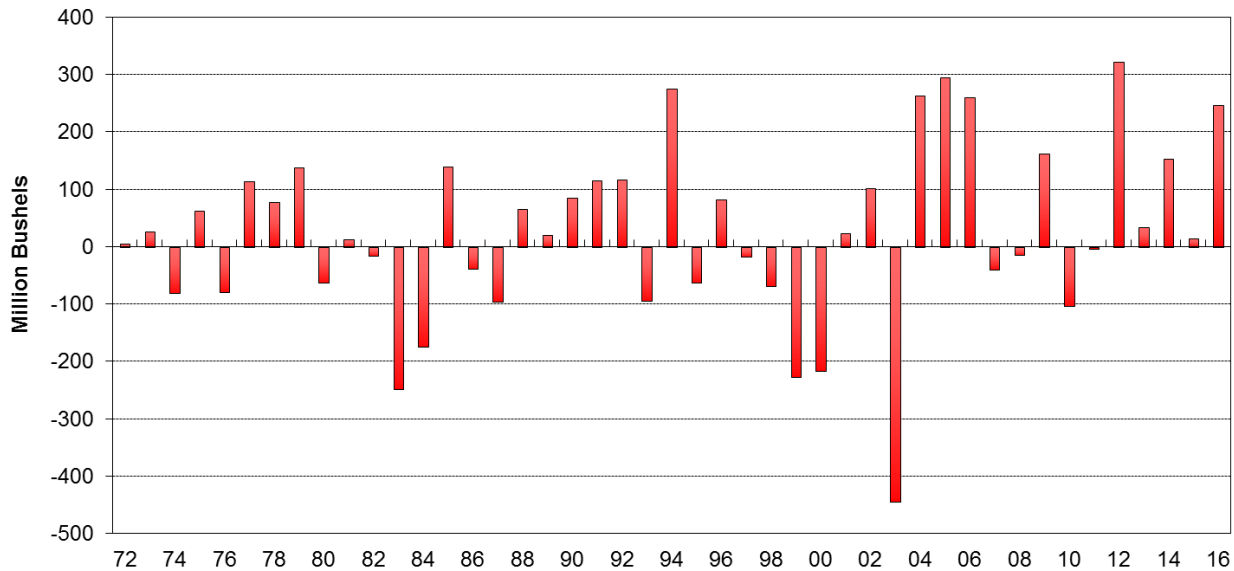
The FSA followed the USDA's production report with its progress report on processing land in the farm program. According to the FSA, 86.8 mln acres have been processed for corn and the spread to the USDA's forecast is approximately 4.5% or 4.1 mln acres. Usually the spread narrows to 3.3% to the USDA's number as the year winds down. Not all acres planted are in the FSA programs thus the USDA's number will always be larger than the FSA reported acres. There are some who are trying to say the FSA numbers imply larger acres (.2 to .4 mln) but so far the progress is within the general progress, thus I am not forecasting a larger eventual corn planted figure. Prevented plant acres are also coming in on the low side of history. Only .95 mln acres in corn have been reported as prevented plant in 2017, nearly matching last year's low figure of 1.05 mln. The record low prevented plant number was set in 2012 at .262 mln. More acres need to be processed but it seems the bulk of the prevent plant acres have been picked up by the FSA. Weather moving to the beneficial side of the meter within the 6-15 forecast as the models try to bring rains to the WCB and central corn belt. The 5 day forecast keeps rains in the Southern Corn belt and the far western edges of the corn growing areas. The first serious chance of rains for the central belt are on August 16th.

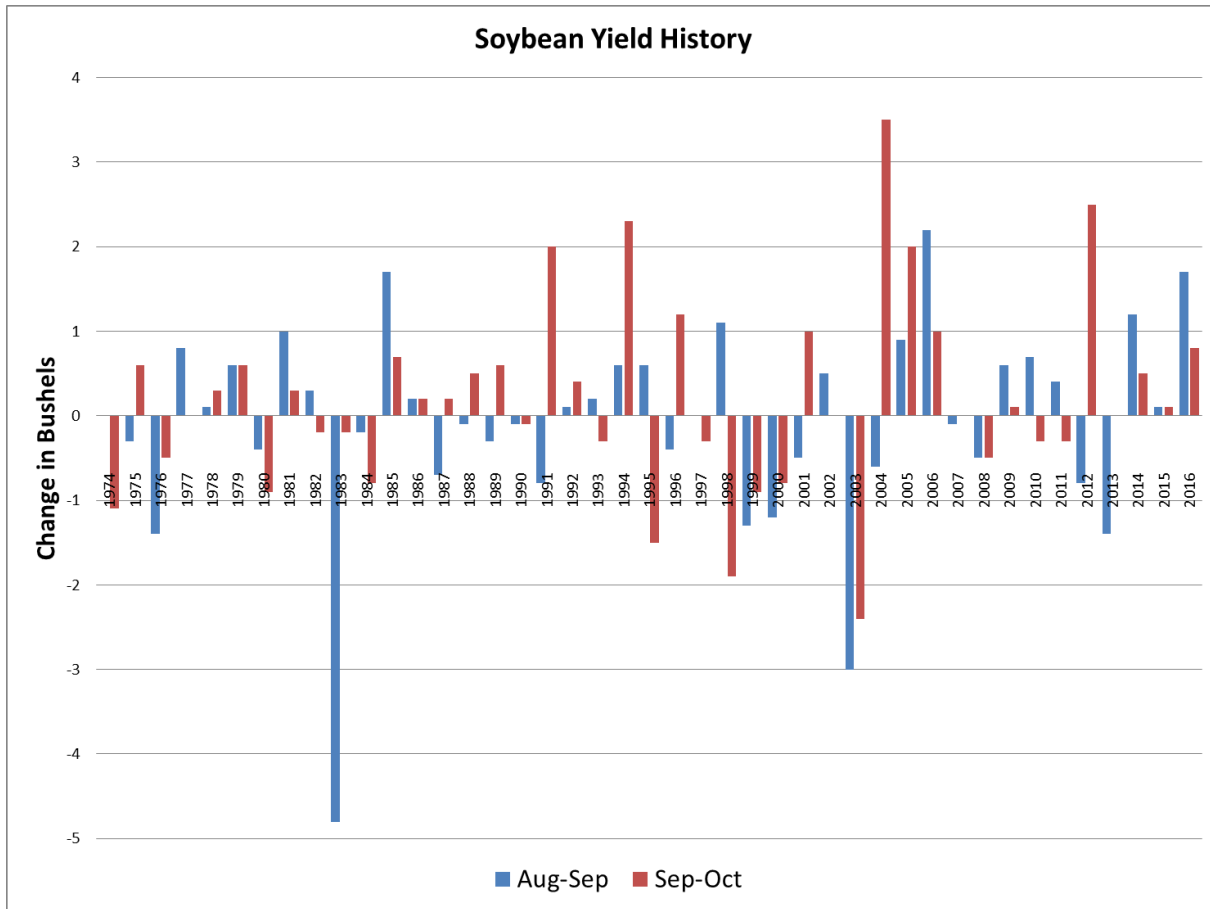


SOYBEANS:

A mild recovery in the soy complex after the sharp selloff after the report yesterday. The trade is still trying to come to grips with the yield estimate by the USDA. At 49.4 the market must price in a carryout near 500 mln bushels. The prospect of a greater production figure only grows when you look at the recent history of the production from August to January. In the last 10 years, there has only been one time where production dropped measurably from August to January. This can come in the way of yield or acres. As you can see in the second graph the changes from month to month can diverge when looking at yields over the Aug-Oct period.

**Soybean Production
August vs January Report**





Looking beyond yield leaves the planted/harvested acre situation. The FSA produced its progress report regarding soybean acres yesterday. The FSA office says it has processed 88.2 mln acres soybeans which is 1.5% below the USDA’s estimate, which is the normal spread in the final tally. Usually the FSA will continue to process its reports and add to its numbers at a declining rate through December. This leaves the possibility the USDA has underestimated plantings by .8 to 1.5 mln acres depending on the year. The USDA usually squares itself with the FSA agency in October to reflect a misestimation of acres.

This introduces the idea production could grow even under a smaller yield scenario as the table below shows. I have added 1 mln acres to the USDA’s estimate to represent the most likely outcome. In the government’s 49.4 bu/acre yield and my demand base you end up with a 680 mln bushel carryout and in the INTL FCStone yield scenario of 47.7 the carryout is still 529. Both outcomes are larger than the 475 mln bushel carryout the USDA is currently presenting with its bloated demand base. The FSA also reported prevented plant acres in its report. YTD processing shows soybean prevented acres at .437 mln or the 3rd lowest in the FSA’s history. This number can still grow slightly in following reports but shows soybeans could gain acres through an abnormally low prevented plant acreage compared to USDA assumed normal levels when it did its June estimate.

US Soybeans

	15-16	16-17	16-17	17/18	17/18	17/18
		<u>USDA</u>	<u>alt</u>	<u>USDA</u>	<u>alt 2</u>	<u>alt 3</u>
Planted	82.7	83.4	83.4	89.5	90.5	90.5
Harvested	82	82.7	82.7	88.7	89.7	89.7
Yield	48	52.1	52.1	49.4	47.7	49.4
Carryin	191	197	197	370	370	370
<u>Production</u>	<u>3926</u>	<u>4307</u>	<u>4307</u>	<u>4381</u>	<u>4279</u>	<u>4431</u>
Available	4140	4528	4529	4776	4674	4826
Crush	1886	1890	1888	1940	1910	1910
Exports	1936	2150	2120	2225	2100	2100
<u>Seed+Resid</u>	<u>121</u>	<u>118</u>	<u>123</u>	<u>136</u>	<u>135</u>	<u>135</u>
Total Use	3943	4158	4131	4301	4145	4145
Carryout	197	370	398	475	529	681

Soybean oil was the only part of the soy complex posting a loss today as the specter of greater soybean production lead to the idea of a greater availability of soybean oil feedstock. Oil Share down sharply. No new news on any biofuel law changes or import tariffs to check the spread's rout today.

Deliveries:

Soybeans – 5
Soybean meal – 138
Soybean oil - 70

WHEAT:

A negative trade today with Spring Wheat leading the way lower for the wheat complex. The trade is still coming to grips with the USDA's lack of yield cutting from the crop report yesterday. Speculators of the MGEX-KC spread also bailing on the spread moving it down 22 cents today. Like corn, spring wheat condition ratings not matching yields or at least arguing for more abandonment in the upper plains. Once the dust settles, abandonment may be the bullish driver in the Spring Wheat contract. FSA plantings out yesterday after the crop production report showing acres registered so far amount to 42.76 mln acres compared to the USDA's 45.7 mln estimate. This puts the FSA acreage 6.4% below the USDA's numbers which is not unordinary this early in the process. Normally the final spread ranges 4.7% to 5.4% below the USDA. Such a range could imply the USDA is overestimating plantings by 300,000 acres. After the 77 mmt Russian crop number from the USDA yesterday a couple Russian firms one-upped the government with IKAR predicting a 77-80 mmt crop and Sovecon upping its estimate 5 mmt to 77.9 mmt. The idea of a stable and not growing Russian wheat crop was the basis of the US wheat values steady at 20 cents above current levels. With even larger FSU crops the US will have to slide to the level the Black Sea sets to buy business. Even with the weaker market today US offers are barely in line with Russian offers into North Africa.

FOB NOLA – US SPOT PRICES

CORN + 37U

SOYBEANS + 52X

SRW + 41U

FOB TEXAS GULF – US SPOT PRICES

HRW + 80U

ECBOT	HIGH	LOW	CLOSE	CHANGE
Sep Corn	3.615	3.5725	3.6075	+ 3 1/2
Dec Corn	3.7525	3.71	3.7475	+ 3 3/4
Aug Beans	9.3575	9.3125	9.355	+ 4 3/4
Nov Beans	9.465	9.37	9.45	+ 4 3/4
Sep Wheat	4.44	4.345	4.3925	- 1 1/4

Regards

Bevan Everett
Risk Management Consultant
INTL FCStone Financial Inc.
FCM Division